

Rule 6.21F. EXCHANGE OF OTC ENERGY OPTIONS FOR, OR IN CONNECTION WITH, NYMEX ENERGY OPTIONS

(A) (1) An exchange of Exchange energy options for, or in connection with, an over-the counter ("OTC") energy options product (or an OTC product with similar characteristics) (hereafter an exchange of options for options or "EOO") consists of two discrete, but related, transactions; an OTC options transaction and an Exchange options transaction. At the time such transaction is effected, the buyer and seller of the Exchange options must be, respectively, the seller and the buyer of the OTC options. The OTC options component shall involve the commodity underlying the related futures contract to the Exchange options contract (or a derivative, by-product or related product of such commodity). The quantity covered by the OTC options must be approximately equivalent to the quantity covered by the Exchange options contracts.

(2) **Restriction on Eligible Contracts.** EOO transactions may be effected for transactions in any of the Exchange's energy options contracts.

(3) **Restriction on Transactions.** An EOO that establishes a NYMEX options position for both buyer and seller shall not be permitted on the first business day following the expired NYMEX contract.

(B)(1) The report of an EOO transaction shall be given on the Floor of the Exchange during the hours of futures trading. (2) EOO transactions are permitted until trading terminates on the last day of trading in the applicable expiring options contract month.

(C) A report of such EOO transaction shall be submitted to the Exchange by each Clearing Member representing the buyer and/or seller. Such report shall identify the EOO as made under this Rule and shall contain the following information: a statement that the OTC options component of the EOO complied with any applicable CFTC regulatory requirements at the time the EOO was entered into between the buyer and seller, a statement that the EOO has resulted or will result in a change of payments or other such change, the kind and quantity of the options, the price at which the options transaction is to be cleared, the names of the Clearing Members and customers and such other information as the Exchange may require. Such report (form) shall be submitted to the Compliance Department by 12:00 noon, no later than two (2) Exchange business days after the day of posting the EOO on the Floor of the Exchange.

(D)(1) Each buyer and seller must satisfy the Exchange, at its request, that the transaction is a legitimate EOO transaction. Upon the request of the Exchange, all documentary evidence relating to the EOO, including relevant OTC documentation, shall be obtained by the Clearing Members from the buyer or seller and made available by the Clearing Members for examination by the Exchange. Additionally, if the buyer or seller is a Member/Member Firm, the Exchange may obtain the information directly from such person(s).

(2) No EOO that is linked to or contingent upon entry into a second, offsetting OTC options transaction may be transacted at any time.

(3) Failure by a buyer or seller, or its Clearing Member to satisfy the Exchange that an EOO transaction is bona fide shall subject such buyer or seller, if a Member/Member Firm, or the Clearing Member to disciplinary action. Such disciplinary action, depending on the gravity of the offense, may be deemed to be a major offense of the Exchange's rules. Further, if the buyer or seller is not a Member/Member Firm, the Exchange may conduct a hearing before the Business Conduct Committee to limit, condition or deny access to the market.

(E) Each EOO transaction shall be posted by the Floor Members and cleared through the Exchange in accordance with normal procedures and by the Clearing Members involved.

(F) All omnibus accounts and foreign brokers shall submit a signed EOO reporting agreement in the form prescribed by the Exchange to the Exchange's Compliance Department. Such Agreement shall

provide that any omnibus account or foreign broker identified by a Clearing Member (or another omnibus account or foreign broker) as the buyer or seller of an EOO pursuant to Rule 6.21F(C), shall supply the name of its customer and such other information as the Exchange may require. Such information shall be submitted to the Exchange's Compliance Department by 12:00 noon no later than two (2) Exchange business days after the day of posting the EOO on the Floor of the Exchange. Failure by an omnibus account or foreign broker to submit either the agreement or the particular EOO information to the Exchange may result in a hearing by the Business Conduct Committee to limit, condition or deny access of such omnibus account or foreign broker to the market.

MARGIN RATES AND REQUIREMENTS

General Information

Margin rates and requirements on domestic contracts are governed by the individual exchanges.

Exchanges establish different margin rates/requirements for different account types (i.e. speculative, hedge, and member).

With the exception of the NYCE, any changes in initial and maintenance margin requirements made by an exchange are applicable to all positions, new or existing. At the NYCE, increases in margin requirements apply only to new positions, whereas decreases in margin requirements may be applied to all positions, new or existing.

FCMs, at their discretion, may set higher margin rates/requirements than required by exchange rules and regulations. FCMs should review their internal margin rates/requirements on a continual basis to ensure compliance with exchange minimum requirements.

Specific Topics

Standard Portfolio Analysis of Risk Margin System (SPAN)

The Standard Portfolio Analysis of Risk Margin System (SPAN) is the risk margin system adopted by all domestic futures exchanges. Margin requirements generated by the SPAN margin system shall constitute exchange minimum margin requirements.

The SPAN margin system is a risk-based, portfolio approach margining system used to compute minimum margin requirements for all futures and options positions. SPAN margin system requirements are computed using risk parameter files which are distributed daily, at a minimum, by the individual exchanges.

MARGIN RATES AND REQUIREMENTS

Firms should apply the SPAN methodology or an alternative equivalent system to compute margin requirements on all accounts with domestic futures or options on futures. Generally, the firm's bookkeeping system will automatically calculate the margin requirement. However, firms could use PC-SPAN® to verify or estimate margin requirements. FCMs and other market participants could purchase PC-SPAN from the Chicago Mercantile Exchange. In addition to the PC-SPAN software, market participants must obtain the SPAN array file for the positions contained in the portfolio. PC-SPAN users could download the array for any exchange from the CME and CBOT web sites at:

<http://www.cbot.com/mplex/contract/SPAN.htm>

and

<http://www.cme.com/SPAN/SPANdatx.htm>

SPAN Margin System Requirements

Initial and maintenance margin requirements include only the risk component of the SPAN margin system requirement. The risk component is the assessment for changes in the underlying portfolio's price and volatility.

The equity component of the SPAN margin system requirement is included in margin equity. The equity component is the marked to the market value of options. See Chapter 11 for additional detail on the SPAN margin system.

Hedge Accounts

A hedge transaction is the purchase or sale of futures or options contracts executed for the purpose of minimizing price risk or facilitating the customary or normal conduct of business. Refer to CFTC Regulation 1.3(z) for a definition of "bona fide hedging transactions and positions".

FCMs should have a reasonable basis to grant hedge status to positions held in an account. A signed letter from an account holder may be considered satisfactory evidence of hedge status unless there is reason to suspect otherwise. Such letter shall clearly indicate which contracts/product categories are eligible for hedge status unless the account owner indicates that all activity in an account is held for hedging purposes.

MARGIN RATES AND REQUIREMENTS

Bona fide hedge and speculative positions must be held in separate accounts unless the firm is able to identify within the account hedge from speculative positions.

A firm's records should clearly identify hedge accounts.